Builder Players Compete with REO Sales

CENTENNIAL, CO—Granite Loan Management, a full-service construction risk mitigation company here, is focusing more on workouts and helping banks with workout construction.

"A lot of it is portfolios that are trying to be sold or when the FDIC takes over a bank, sometimes there is a construction portfolio that they want to sell. The people buying it need help," said Bill Cobb, president of the company. "Or an existing bank gets a project that becomes a potential REO during construction and they need help working that out."

Granite is also busy concentrating its efforts on gathering commercial market share. "There was never the boom in commercial that you had in residential. It's only down 9%, 15% or so," Mr. Cobb said.

"All our competitors are really hurting. So, we are trying to gather market share. We're trying to basically get some business from any or all of the survivors whether its through project reviews or inspections. We're really focusing on the projects that are remaining and trying to get ensconced in there."

More of the construction lending programs disappeared than are remaining. Whether they are national or regional, there are probably less than 10 programs in existence now, he added.

During the construction lending heyday, Mr. Cobb recalls when the now-defunct Washington Mutual had its own construction-to-perm program in around 25 states. He said the corporate side of WaMu would then make lines of credit to First Magnus, TransLand and American Home Mortgage, and they would have a construction-to-perm program using that line of credit.

"Except they would use the same standards of care WaMu did in the construction-to-perm program. In effect, WaMu created their own competition for construction that they could not compete with," said Mr. Cobb.

The one thing that has occurred through this, he described, is the wholesale line of credit business has completely disappeared. "Everyone has cancelled or pulled it so that the independent mortgage company using a line of credit has disappeared. They've killed all their competition in that way, which when it does come back will make it much easier for them to grow very quickly."

Since the market crashed in October 2008, business on the residential construction side has slowed dramatically and volume has dropped.

"On the big builder side, their business is off tremendously," said Mr. Cobb. "There is a little bit of two markets in construction-to-perm. The builder business is closer to the average-priced house in America. The construction-to-perm business is more of a custom home, an average price of between $700,000 and $1 million. This is for people who really want to build their own house the way they want to build it."

The business does see some average-size homes in the construction-to-perm program but a lot of it is semi-custom homes. "You would think that is a little bit recession proof, because the people who want to build their house have the money to build what they want to build. But what we are seeing now, I think is that everyone in America, in some form or another, has stopped spending money. We've seen a big decrease in retail sales, a big decrease in discretionary dollar sales, entertainment. The people who were going to build their homes said, 'Let's just wait.' So, the programs that still exist — Wells, Chase, M&T — all see a drop in demand right now."

Lenders have learned you don't chase volume or market share by changing credit or pricing, added Mr. Cobb. "You need to maintain a pricing that covers losses and covers all your costs. You need to maintain a credit quality that doesn't make you approve loans that you shouldn't approve."

Since last fall, all construction lending programs have changed credit in some way or another, he said, to go back to old policies. "It's the old school of this is the way you do it. LTV's have been lowered. Liquidity requirements for the borrower have been raised. Credit score requirements have been raised. So, they're getting back to where they probably should have been all along."

BILL COBB, President of Granite Loan Management, says, "We're trying to gather market share."

The inventory now is foreclosures. For builders that have inventory in California, Nevada or Arizona, where a foreclosed home is 30% or 40% less, there is a whole philosophical discussion of whether or not they should try to compete with that as a builder. "Or do you let the buying public realize it's a foreclosed home so there's no warranty?" he asked. "There could be damage to the home. It's been abandoned for a while. You're buying it often as-is. There is a risk that it's not the same quality."

In many instance within the last six months, according to Mr. Cobb, once the foreclosure process has been stopped, 70% of the restructured loans went back into foreclosure within 90 days. "The question is there is a social goal of keeping people in these houses. But if they really can't afford the house, what you are doing is delaying a market-clearing process of getting those properties out, getting them into the hands of an investor or homeowner that can actually afford it, getting it rented, but what you are really doing is getting it off the market," he said.

FHFA to Lower AH Goals

CHICAGO—The Federal Housing Finance Agency will soon propose a rule to lower the affordable housing goals imposed on Fannie Mae and Freddie Mac, a key agency official said at the MBA's National Secondary Market Conference here.

Though Edward DeMarco, the FHFA's chief operating officer and senior deputy director for housing mission and goals, said he was not at liberty to reveal the details of the forthcoming rule, he did say that the plan was to modify the goals so they would be "on par" with those set by HUD for the period from 2004 to 2006.

But even at that, he added, "we recognize" that the GSEs will have to "stretch" to meet them.

Mr. DeMarco also told the conference that the affordable housing goals set for 2008, most of which were missed by Fannie and Freddie, were "unrealistic" and "not feasible," given the conditions of the housing market at that time.